



PATENT Mail Stop AF  
Customer No. 22,852  
Attorney Docket No. 08350.0416

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of: )  
Mark A. Henninger et al. ) Group Art Unit: 3624  
Application No.: 09/738,618 ) Examiner: Lalita M. Hamilton  
Filed: December 15, 2000 )  
For: COMPENSATORY RATIO ) Confirmation No.: 2172  
HEDGING )

Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

**Mail Stop AF**

**PRE-APPEAL BRIEF REQUEST FOR REVIEW**

Sir:

Applicants request review of the Final Office Action mailed on July 15, 2005, pursuant to the Pre-Appeal Brief Conference Pilot Program set forth in the Official Gazette notice of July 12, 2005. No amendments are being filed with this Request. This Request is being filed together with the Notice of Appeal.

**Reasons for Request for Review**, set forth in five or fewer pages, begin on page 2 of this paper.

**Reasons for Request for Review**

As set forth in the Official Gazette notice of July 12, 2005, pre-appeal brief review of a Final Office Action is appropriate when there are clear errors in the examiner's rejections or when the Examiner has omitted an essential element of a *prima facie* case to support a rejection. In the Final Office Action, the Examiner applied 35 U.S.C. § 103(a) to reject claims 1-5 as being unpatentable over Falkenstein, "Minimizing Basis Risk from Nonparallel Shifts in the Yield Curve, The Journal of Fixed Income, June 1996 (hereafter, *Falkenstein*) in view of HNG, Financial Appendix 1999 (hereafter, *HNG*), and claims 6-8 as being unpatentable over *Falkenstein* and *HNG* further in view of King, U.S. Patent No. 5,742,775. At least for the reasons set forth below, these rejections are erroneous because the Examiner has not established a *prima facie* case of obviousness.

In particular, the rejection of independent claim 1 as allegedly being obvious over *Falkenstein* and *HNG* is erroneous because the Examiner has not shown that the references, taken together or alone, teach or suggest every element recited in the claim, as required to support proper section 103 rejections. M.P.E.P. § 2143.03 (8<sup>th</sup> ed. 2001, 2nd revision May 2004).

For example, claim 1 recites a method of compensatory ratio hedging comprising, among other things, hedging an amount of a bond by a swap wherein said **amount of said bond hedged varies during the life of said swap** by varying the ratio of said bond being said hedged to said swap in each determined period of time. Because the Examiner has not shown a teaching or suggestion of this claim element in the cited references, the section 103 rejection of claim 1 is in error.

In the Final Office Action, the Examiner stated that “*Falkenstein* discloses using multiple hedging securities with different maturities and durations.” (Final Office Action, p. 2.) Indeed, *Falkenstein* discloses a technique for choosing a combination of hedging instruments with mismatched values or maturities. (*Falkenstein*, p. 3.) However, each security in the disclosed combination has a fixed duration (e.g., a two-year zero coupon bond) and a fixed value (e.g., a \$1000 cash flow). (*Id.*, at p. 5-6.) What changes in the system of *Falkenstein* is the value of an overall portfolio, driven by changes in key interest rates. (*Id.* at p. 4.) This is not a teaching or suggestion of a hedging method in which the **amount of a bond hedged varies** during the life a swap.

Furthermore, *HNG* does not teach or suggest this claim element. In the Final Office Action, the Examiner stated that “*HNG* teaches a financial strategy in which swaps are used during predetermined periods of time to continuously make adjustments to investments.” (Final Office Action, p. 2.) While this is correct, the reference does not disclose or suggest hedging **a bond that has an amount that varies** during the life of a swap. Instead, *HNG* teaches “the use of swaps for the purpose of converting loans.” (*HNG*, p.1.) Because the system of *HNG* swaps loans, what changes are the interest payments on those loans. (*Id.* at p. 2.) “We...adjust our portfolio by the choice of interest rates and currencies when raising new loans.” (*Id.*; see also, p. 6.) Nothing in the reference discloses or suggests hedging an amount of a bond that varies during the life of a swap.

Still further, the Examiner has not shown that *Falkenstein* and *HNG* in combination teach or suggest a hedging method including a swap wherein an amount of a being bond hedged varies during the life of said swap by varying the ratio of said bond being said hedged to said swap in each determined period of time. In both *Falkenstein* and *HNG*, the amounts of the securities and

hedging instruments discussed do not vary. Instead, interest rate changes affect the overall portfolio value (in *Falkenstein*) or the choice of future swaps (in *HNG*). Thus, there is no suggestion in the combination of references of a hedging method including a swap wherein an **amount of a being bond hedged varies during the life of said swap** by varying the ratio of said bond being said hedged to said swap in each determined period of time.

The method of claim 1 further comprises determining a **plurality of periods of time making up a life of a swap** and hedging an amount of a bond by said swap by varying the ratio of said bond being said hedged to said swap **in each determined period of time**. The Examiner has not shown a teaching or suggestion of this claim element in the cited references. In the Final Office Action, the Examiner stated that “HNG teaches a financial strategy in which swaps are used during predetermined periods of time to continuously make adjustments to investments.” (Final Office Action, p. 2.) In fact, the adjustments disclosed in the reference are made when selecting or beginning a loan swap, not in a plurality of time periods during the life of a swap. “We...adjust our portfolio by the choice of interest rates and currencies when raising new loans.” (*HNG*, p. 2.)

Furthermore, *Falkenstein* does not teach this claim element. The Examiner argued that “[t]he ratio of the bond being hedged to the security is varied with different maturity periods. Therefore, the Examiner is interpreting *Falkenstein* as reading onto the invention.” (Final Office Action, p. 3.) However, *Falkenstein* merely discloses creating a hedge with a combination of securities with varying maturity periods (e.g., “hedging a six-year bond with a seven-year bond”). (*Falkenstein*, p. 3.) The reference does not teach or suggest a plurality of time periods that make up the life of a swap or making changes in those time periods.

Further still, the combination of *HNG* and *Falkenstein* does not teach determining a plurality of periods of time making up a life of a swap and hedging an amount of a bond by said swap by varying the ratio of said bond being said hedged to said swap **in each determined period of time**. Even if the collection of bonds with different maturities of *Falkenstein* was used as security for the swaps of *HNG*, any adjustments would be made at the beginning of a swap, not in a plurality of time periods making up the life of a swap. As *HNG* plainly states, adjustments are made “by the choice of interest rates and currencies **when raising new loans.**” (*HNG*, p. 2, emphasis added.) Thus, there is no teaching or suggestion in the combination of references of a hedge method including determining a plurality of periods of time making up a life of a swap and hedging an amount of a bond by said swap by varying the ratio of said bond being said hedged to said swap **in each determined period of time.**

For the reasons set forth above, the rejection of claim 1 under section 103(a) over *Falkenstein* in view of *HNG* is erroneous because the Examiner has not shown that the references, taken together or alone, teach or suggest each and every element of the claim as required to establish a *prima facie* case of obviousness.

Claims 2-5 depend from claim 1 and therefore incorporate its recitations. Thus, at least for the reasons given above with respect to claim 1, the Examiner has not shown a teaching of each and every element of claims 2-5, and the section 103 rejections of claims 2-5 are erroneous.

Claims 6-8 were rejected as being unpatentable over *Falkenstein* and *HNG* further in view of *King*, U.S. Patent No. 5,742,775. As set forth above with respect to claim 1, the Examiner has not shown a teaching of several elements recited by claims 6-8 due to their dependence from claim 1. The addition of *King* does not cure these defects. Indeed, the Examiner has not alleged that *King* teaches or suggests a hedging method in which the amount of

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a bond hedged varies during the life a swap or determining a plurality of periods of time making up a life of a swap and hedging an amount of a bond by said swap by varying the ratio of said bond being said hedged to said swap in each determined period of time. Instead, the Examiner has merely stated that "King teaches a computer-implemented apparatus for creating a financial instrument." (1/12/05 Office Action, p. 5.) Even if this statement is true, it does not cure the defects in *Falkenstein* and *HNG* that are discussed above. Therefore, the rejections of claims 6-8 under section 103(a) over *Falkenstein* and *HNG* further in view of *King* are erroneous because the Examiner has not shown that the references, taken together or alone, teach or suggest each and every element of the claims as required to establish a *prima facie* case of obviousness.

**Conclusion**

For at least the foregoing reasons, Applicants request review of the Final Office Action, reversal of the erroneous rejections of claims 1-8, and the timely allowance of the pending claims. Please grant any extensions of time required to enter this response and charge any additional required fees to our deposit account 06-0916.

Respectfully submitted,

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Dated: October 11, 2005

By: 

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